Investment Climate Statement

1. Openness to Foreign Investment

Since regaining independence 2006, Montenegro has adopted an investment framework to encourage growth, employment and exports. Montenegro is still in the process of establishing a liberal investment regime. Although the continuing transition has not yet eliminated all structural barriers, the Government recognizes the need to remove impediments, reform the business environment and open the economy to foreign investors.

There are no distinctions made between domestic and foreign companies. Foreign companies can own 100 percent of a domestic company, and profits and dividends can be repatriated without limitations or restrictions.

Foreign investors can participate in the privatization process and can own land in Montenegro. Expropriation of property can only occur for a "compelling public purpose" and compensation must be made at fair market value. There has been no known expropriation of foreign property. International arbitration is allowed in commercial disputes involving foreign investors.

Registration procedures have been simplified to such an extent that it is possible to register a company electronically in Montenegro. Bankruptcy laws have been streamlined to make it easier to liquidate a company, accounting standards have been brought up to international norms, and custom regulations have been simplified. There are no mandated performance requirements.

Montenegro has enacted specific legislation outlining guarantees and safeguards for foreign investors. Montenegro's Foreign Investment Law establishes the framework for investment in Montenegro. The law eliminates previous investment restrictions, extends national treatment to foreign investors, allows for the transfer/repatriation of profits and dividends, provides guarantees against expropriation, and allows for custom duty waivers for equipment imported as capital-in-kind.

Montenegro also has adopted more than 20 other business-related laws, all in accordance with EU standards. The main laws that regulate foreign investment in Montenegro are: the Foreign Investment Law; the Enterprise Law; the Insolvency Law; the Law on Fiduciary Transfer of Property Rights; the Accounting Law; the Law on Capital and Current Transactions; the Foreign Trade Law; the Customs Law; the Law on Free Zones; the Labor Law; the Securities Law; the Concession Law, and the set of laws regulating tax policy. Montenegro has made significant steps in both amending investment-related legislation in accordance with world standards and creating the necessary institutions for attracting investments. However, as is the case with other transition countries, implementation and enforcement of existing legislation remains weak and inconsistent.

While Montenegro has taken many steps to make the country more open for foreign investment, some deficiencies still exist. The absence of fully developed legal institutions has fostered corruption and weak controls over conflicts of interest. The judiciary is still slow to adjudicate cases, and court decisions are not always consistently applied or enforced.

Montenegro's significant grey economy impacts its market, negatively affecting businesses operating in accordance with the law. Favorable tax policies established at the national level are often ignored at the municipal level.

NATO invited Montenegro to participate in its Membership Action Plan (MAP) on December 4, 2009. The European Council's decision in favor of visa-free travel to Schengen-zone countries for citizens of Montenegro came into effect on December 19, 2009.

Montenegro's application for EU membership was originally submitted on December 15, 2008. Montenegro was formally given the status of an EU candidate country at the European Council summit in Brussels on December 17, 2010. On December 9, 2011 the European Council announced that Montenegro could start EU accession talks in June 2012 if it showed additional progress in implementing reforms, especially regarding the rule of law. On June 29th, 2012 Montenegro officially started accession negotiations with the EU.

On December 17, 2011 Montenegro became the 156th member of World Trade Organization (WTO).

Over 5,000 foreign-owned firms are registered and operating in Montenegro. Foreign investors come from more than 100 countries, with no single country dominating investment. To date the most significant investments have come from Italy, Norway, Austria, Russia, Hungary and Great Britain.

Montenegro's ranking by key indices is as follows:

TI Corruption Index	4.1 (75 out of 176 countries)
Heritage Economic Freedom	72 out of 179 countries
Forbes List of Best Countries for Business	45 out of 141 countries
World Bank Doing Business Report	
a) Ease of doing business	51 out of 183 countries
b) Acquiring construction permits	176 out of 183 countries
c) Access to electricity	69 out of 183 countries
d) Registering property	117 out of 183 countries
e) Getting credit	4 out of 183 countries
f) Protecting investors	32 out of 183 countries
g) Paying taxes	81 out of 183 countries
h) Trading across borders	42 out of 183 countries
i) Enforcing contracts	135 out of 183 countries

j) Resolving insolvency 44 out of 183 countries

American Chamber of Commerce
In order to further develop commercial ties between the U.S. and Montenegro, the American Chamber of Commerce in Montenegro was launched on November 19, 2008. AmCham Montenegro serves as a leading advocate for American as well as other foreign businesses in Montenegro.

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U.S. – Montenegro Business Council
The U.S.-Montenegro Business Council was formally opened in Podgorica on December 16, 2008. The Council's mission is to promote trade and investment between the U.S. and Montenegro. Additionally, through its sister office in the U.S., the Council seeks to encourage more American investors to learn about opportunities in Montenegro, as well as to help Montenegrin companies explore business opportunities in the U.S. Also, as a part of the strategic partnership between Montenegro and State of Maryland, the Council's office in Podgorica will also serve as a Maryland state trade office.

The Council announced that it will begin to offer a special program to Montenegrin companies from January 2010 which will enable them to establish braches in the State of Maryland free of charge, with the Council covering the set-up costs.

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Montenegrin Chamber of Economy
The government supported Chamber of Economy in Montenegro was established in 1928. The Chamber is focused on increasing the competitiveness of Montenegrin enterprises and on promoting Montenegro as an investment destination.

Velimir Mijuskovic, President
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Montenegrin Investment Promotion Agency
In order to better promote investment and foster economic development, the Government of Montenegro established the Montenegrin Investment Promotion Agency (MIPA) in mid-2005. It seeks to promote Montenegro as a competitive investment destination by actively facilitating investment projects in the country.

Inquiries on investment opportunities in Montenegro can be directed to:

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Montenegro's Foreign Investment Law

2. Conversion and Transfer Policies

The Foreign Investment Law guarantees the right to transfer and repatriate profits in Montenegro. Montenegro uses the Euro as its domestic currency. There are no difficulties in the free transfer of funds exercised on the basis of profit, repayment of resources, or residual assets.

3. Expropriation and Compensation

Montenegro provides legal safeguards against expropriation. Protections are codified in several laws adopted by the government. There have been no cases of expropriation of foreign investments in Montenegro. However, Montenegro has outstanding claims related to property nationalized under the Socialist Federal Republic of Yugoslavia.

On March 23, 2004, Montenegro passed a Restitution Law. The necessary sub-acts entered into effect on January 1, 2005, and the Restitution Fund came into existence on March 1, 2005. The basic restitution policy in Montenegro is restitution in kind when possible, and cash compensation or substitution of other state land when physical return is not possible.

At the end of August 2007, Parliament passed a new Law on Restitution which supersedes the 2004 Act. In line with the new law, three review commissions have been formed: one in Bar (covering the coastal region); one in Podgorica (for the central region of Montenegro); and one in Bijelo Polje (for the northern region of Montenegro.)

Montenegro provides safeguards from expropriation actions through its Foreign Investment Law. The law states that the government cannot expropriate property from a foreign investor unless there is a "compelling public purpose" established by law or on the basis of the law. If an expropriation is executed, compensation must be provided at fair market value plus one basis point above the LIBOR rate for the period between the expropriation and the date of payment of compensation.

4. Dispute Settlement

The Administrative Court in December2012 rejected an appeal by the U.S. investment fund NCH, which had challenged the decision of the Government's Council for Privatization earlier in 2012 to grant the lease of a large coastal property to the Azerbaijani Oil Company SOCAR. Representatives of NCH, who were the second-ranked bidders on the tender, argued that the Government's Council for Privatization did not value their bid correctly. The Administrative Court rejected NCH's appeal, saying that it was submitted one day after the deadline for submitting appeals. The Supreme Court had previously sent the case back to the administrative court for further review at the beginning of December.

Post is not aware of any other investment disputes involving American companies in Montenegro.

Legal System of Montenegro

Montenegro's Law on Courts defines a judicial system consisting of three levels of courts: Basic, Superior, and the Supreme Court. Montenegro established the Appellate Court and the Administrative Court in 2005 for special jurisdiction of commercial matters.

The Basic Courts exercise original jurisdiction over civil and criminal cases. There are 15 courts for Montenegro's 21 municipalities. Two Superior Courts in Podgorica and Bijelo Polje have appellate review of municipal court decisions. The Superior Courts also decide on jurisdictional conflicts between the municipal courts.

The two commercial courts (which also handle economic crimes) were established in Podgorica and Bijelo Polje. They have jurisdiction in the following matters: shipping, navigation, aircraft (except passenger transport), intellectual property rights, bankruptcy, and unfair trade practices. The Superior Courts hear appeals of Basic Court decisions, and Superior Court decisions may be appealed to the Supreme Court. The Supreme Court is the court of final judgment for all civil, criminal and administrative cases.

The commercial court system faces challenges, such as the implementation of new legislation and changes to existing laws; developing a new system of operations, including electronic communication with clients; and a lack of capacity and expertise among the judges. As a result, the pace at which cases are adjudicated is slow. Some reform proposals have included creating a High Commercial Court or dedicating a chamber of the Supreme Court to hear commercial cases. Some judges also have suggested designating a particular court with assigned competency for specific areas in order to streamline caseloads and develop specialized expertise for complicated economic crimes.

Dispute resolution is under the authority of national courts, but it can also fall under the authority of international courts if the contract so designates, meaning that Montenegro allows for the possibility of international arbitration. Various foreign companies have other bilateral and multilateral organizations -- such as MIGA (World Bank), OPIC (U.S.), ECGD (UK), SID (Slovenia), SACE (Italy), COFACE (France), and OEKB (Austria) -- providing risk insurance against war, expropriation, nationalization, confiscation, inconvertibility of profit and dividends, and inability to transfer currency. In 2012, Montenegro became a Party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the ICSID Convention).

Over the last several years the adoption of 20 new business laws has significantly changed and clarified the legislative environment.

The new Law on the Improvement of the Business Environment adopted in July of 2010 is the first law of its type in Montenegro aimed at equalizing the status of foreign and domestic investors. The new law addresses changes in various laws including: Business Organization; Foreign Investments; Cinematography; Assessment of Impact in the Environment; Construction; and Administrative Taxes. The purpose of these changes is to provide the same working conditions to foreign companies operating in Montenegro and to companies with domestic capital. For example, with the Law on the Environment the deadlines for issuing different permits were reduced in order to speed up procedures and also to help businesses meet their obligations more quickly.

The Bankruptcy Law, adopted in January 2011, mandates that debtors are designated as insolvent if they cannot meet financial obligations within 45 days from the date of maturity of any debt obligations. At the end of April 2004, Parliament adopted the Foreign Trade Law. The law decreases barriers for doing business and executing foreign trade transactions and is in accordance with WTO standards. However, the law still provides scope for restrictive measures and discretionary government interference.

The new Labor Law was adopted in November 2011. It defines a single collective agreement for both public and private sectors, maintains the existing level of severance payments (i.e. the average of the past six months' salaries), and retains the current 365 days of allowed maternity leave. Besides the Labor Law, the question of labor-based relations is also defined in the General Collective Agreement, Branch-level Collective Agreements, and with individual labor agreements between employer and employee.

A new Concession Law was adopted in February 2009 and creates favorable conditions for obtaining and utilizing concession licenses. The law also regulates the conditions and procedures for obtaining a concession to exploit natural resources, use property in the public domain, and/or conduct activities of general interest. The Concession Law is fundamental to support the public-private partnership process through which a number of future projects will be realized in Montenegro.

In January 2012 Montenegro began to implement the new Law on Excise Taxes. The law was adopted in order to bring Montenegro into compliance with European excise standards. The new law increases duties on cigarettes and alcoholic beverages. Beginning in April 2012 higher duties were also placed on coffee and sodas.

5. Performance Requirements and Incentives

The government does not impose any performance requirements as a condition for establishing, maintaining, or expanding an investment. Limited incentives are offered to foreign investors; for example, the government offers duty exemptions for imported equipment.

6. Right to Private Ownership and Establishment

In Montenegro, a foreign investor, foreign company, or foreign individual may acquire property. The Foreign Investment Law specifically permits foreign investors to purchase real estate through a contract. This right is explicitly reinforced by the Law on Property and Law on Relations. The Act states that foreign persons and companies can, based on reciprocity, acquire rights to real estate, such as company facilities, places of business, apartments, living spaces, and land for construction. Additionally, foreign persons can claim property rights to real estate by inheritance in the same manner as a domestic citizen.

7. Protection of Property Rights

Mortgages/Secured Transactions

In July 2002, Montenegro enacted the Law on Secured Transactions and established a collateral registry at the Commercial Court in May 2003. The registry's operational guidelines have been drafted and approved by the Commercial Court. The main goal of the Law on Secured Transactions is to establish a clear and transparent framework. In August 2004, Montenegro adopted a new Law on Mortgages by which immovable property may be encumbered by a security interest (mortgage) to secure a claim for the benefit of a creditor who is authorized, in the manner prescribed by the law, to demand satisfaction of his claim by foreclosing the mortgaged property with priority over creditors who do not have a mortgage created on that particular property, as well as over any subsequently registered mortgage, regardless of a change in the owner of the encumbered immovable property.

Intellectual Property Rights

The acquisition and disposition of intellectual property rights are protected by the Law on the Enforcement of Intellectual Property Rights, which entered into force on January 1, 2006. The law provides for fines for legal entities of up to 30,000 euro for selling pirated and/or counterfeited goods. It also provides ex officio authority for market inspectors in the areas mentioned above. In April 2005, the Montenegrin Parliament adopted the Regulation on (TRIPs) Border Measures that provides powers to customs authorities to suspend customs procedure and seize pirated and counterfeit goods.

Montenegro's Penal Code penalizes intellectual property right violations, allows ex officio prosecution, and provides for stricter criminal penalties. The Law on Optical Disks was adopted in December 2006; it requires the registration of business activity when reproducing optical disks for commercial purposes and provides for surveillance of optical disk imports and exports, and imports and exports of polycarbonates. The Montenegrin Intellectual Property Office is an authority within the state administration system of Montenegro which is competent for the activities related to the industrial property rights and receipt and filing authors and related rights. The Intellectual Property Office is established under the Regulation on organization and manner of work of the state administration, dated May 11, 2007 (''Official Gazette of the Republic of Montenegro'', No. 25/07) and officially started working on May 28, 2008.

A regulation on the recognition of intellectual property rights was adopted in September 2007. Under this regulation, any rights registered with the Union Intellectual Property Office or with the Serbian Intellectual Property Office and any pending applications filed with these Offices before May 28, 2008 are enforceable in Montenegro. Any IPR application submitted after that date in Serbia will have to be re-submitted in Montenegro within six months, to retain its acquired priority.

IPR market inspectors, police officers, customs officers, and employees of the Ministry of Economy attended a number of training seminars on intellectual property protection and counterfeiting, including an IPR enforcement workshop hosted by the American Chamber of Commerce. At the end of 2007, the Customs Administration signed a Letter of Intent for

Acceptance of SECURE Standards (standards to be employed by customs for uniform rights enforcement), adopted by the World Customs Organization (WCO) to promote the efficient protection of intellectual property rights by customs authorities.

To further improve intellectual property protection, AmCham Montenegro established an IPR Committee in April 2009. The main goal of the Committee is to work closely with Montenegrin institutions which deal with IPR, to increase public awareness of the importance of intellectual property protection, and to help the GoM strengthen its administrative capacities in this field.

Montenegro is not on the Special 301 Watch List. However, the sale of pirated optical media (DVDs, CDs, software) as well as counterfeit trademarked goods, particularly sneakers and clothing, is widespread. Enforcement is slowly improving as customs, police, and judicial authorities obtain the necessary tools, but institutional capacity and public awareness is still limited.

International Agreements
The former State Union of Serbia and Montenegro ratified many conventions and agreements. It should be noted that in its Declaration of Independence Montenegro stated: "The Republic of Montenegro will apply and assume international agreements and treaties which were concluded by the State Union and which are in accordance with the Montenegrin judicial system."
The following conventions and agreements in the field of intellectual property have been signed and continued with implementation after independence:

- Convention Establishing the World Intellectual Property Organization (1967) [member since October 1, 1973];
- Paris Convention for the Protection of Industrial Property (1883) [member since February 26, 1921];
- Berne Convention for the Protection of Literary and Artistic Works (1886) [member since June 17, 1930];
- Madrid Agreement Concerning the International Registration of Trademarks (1891) [member since February 26, 1921];
- Protocol relating to the Madrid Agreement Concerning the International Registration of Trademarks [member since February 19, 1997];
- Patent Cooperation Treaty (1970) [member since February 1, 1997];
- Hague Agreement Concerning the International Deposit of Industrial Designs (1925) [member since December 30, 1993];
- Universal Copyright Convention (1952) [member since 1966];
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Trademarks (1957) [member since August 30, 1966];
- Locarno Agreement Establishing an International Classification for Industrial Designs (1968) [member since October 16, 1973];
- Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite (1974) [member since August 25, 1979];
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (1977) [member since February 25, 1994];
- Trademark Law Treaty (1994) [member since September 15, 1998];

- Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (1958) [member since June 1, 1999];
- Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods (1891) [member since May 18, 2000];
- Nairobi Treaty on the Protection of the Olympic Symbol (1981) [member since March 18, 2000];
- Treaty on Intellectual Property with Respect to Integrated Circuits (1989) (signed, not ratified];
- International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations [member since December 20, 2002];
- Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms [member since December 20, 2002];
- WIPO Copyright Treaty [member since December 20, 2002];
- WIPO Performances and Phonograms Treaty [member since December 20, 2002]

WTO Membership

On December 17, 2011, Montenegro became the 156th member of World Trade Organization (WTO). Accession to the WTO is expected to make a positive and lasting contribution to the process of economic reform and sustainable development in Montenegro. A large part of Montenegro's trade is already with the EU, but the further mutual opening of markets and abolishment of restrictions to market access for goods and services will benefit entrepreneurs on both sides and stimulate investment.

8. Transparency of The Regulatory System

The Montenegrin Law on Foreign Investment is based on the national treatment principle, and all proposed laws and regulations are published in draft form and open for public comments, generally for a 30-day period.

Regulations are often applied inconsistently, particularly at the municipal level. Many regulations are in conflict with other regulations, or are ambiguous, creating confusion for investors. As noted in the American Chamber of Commerce’s 2012 Business Climate Survey, many municipalities lack adequate Detailed Urban Plans, making construction permit procedures lengthy and complex.

Foreign investors can establish a company and invest in it in the same manner and under the same conditions which apply to domestic persons. The same regulations are applied to both domestic and foreign investors, and there are no other regulations which might deprive a foreign investor of any rights or limit such rights. The Law of Foreign Investments is now fully harmonized with World Trade Organization rules.

On January 22, 2004, the Parliament of Montenegro established an Energy Regulatory Agency, which has authority over the electricity, gas, oil, and heating energy sectors. Its main tasks are the approval of pricing, development of a model for determining allowable business costs for energy sector entities, issuance of operating licenses for energy companies and for construction in the energy sector, and monitoring of public tenders. The energy law prescribes that energy sectors where prices are affected by monopoly positions of some participants, business costs will be set at levels approved by the Agency. In those areas deemed to function competitively, the market will determine prices.

The Agency for Electronic Communication and Postal Services was founded by the Montenegrin government in 2001. It is an independent regulatory body whose primary purpose is to design and implement a regulatory framework and encourage private investment in the sector.

The State Audit Institution was established in 2004 and serves as the supreme control organ of budget and state property, local government units, funds, the Central Bank of Montenegro and all other legal entities owned by the state. The Institution audits the annual budget balance sheet of Montenegro. The Institution presents an annual report on the audit results to the parliament by the end of October.

9. Efficient Capital Markets and Portfolio Investment

The banking sector in Montenegro is completely privatized. There are eleven banks operating in the country, and all of them are in private ownership; one is locally owned while the others are part of international banks.

At the end of third quarter of 2012, the total assets of eleven Montenegrin banks amounted to 2.9 billion euros, and total deposits amounted to 1.95 billion euros. One of the main risks to financial stability is a growing illiquidity of the economy created by non-performing assets.

A new set of laws has been adopted and some of the existing laws have been amended to improve regulation of the banking sector, provide a higher level of depositor safety and increase trust in the banking sector itself.

The Law on the Protection of Deposits has been adopted to bring local legislation on protecting deposits up to European standards. In accordance with the law, a fund for protecting deposits has been established. Deposits are guaranteed up to the value of 20,000 euro. In 2012 the amount increased to 30,000 euro and in 2013 the amount guaranteed by the fund will increase to 50,000 euro. With this, guaranteed deposits for individuals in Montenegro will be at the same level as other countries in the European Union.

The Euro has been officially used in Montenegro since March 31, 2002. Montenegro is one of a few countries that do not belong to the Euro zone but use the Euro as its official currency, without any formal agreements. Use of the Euro defines the role of the Central Bank; since its authority is limited, it has focused on control of the banking system, and maintenance of the payment system. It acts as the state fiscal agent and monitors monetary policy.

Capital Markets

The capital market in Montenegro achieved the highest growth in the process of mass voucher privatization. After completing this process in 2002, the capital market developed rapidly and become the most developed in the region. In 2007 it achieved a turnover of 4.8 billion euro or 213 percent of GDP. In 2009 there was a significant turnaround and further increased value of the stock exchange, increasing the number of transactions and turnover. The most important reason for the market’s revival was the sale of shares in Electoprivreda Crne Gore, the national electricity company.

In 2012 the Montenegrin capital market was characterized by negative trends. This was followed by decreases in trade volume and in the number of transactions made in comparison with the same period in 2011. The greatest turnover was recorded in the area of company shares, followed by bonds and investment funds. The most important innovation has been the adoption of a new methodology for calculating indices, which aims to present an accurate picture of the situation in the capital market.

During the first 10 months of 2012, turnover on the Montenegrin stock exchange amounted to only € 27.21 million, a decline of 39.9% in comparison with the same period in 2011. The average monthly turnover during the first half of the current year was only € 2.72 million, which was much lower than the average monthly turnover in 2011 (€ 4.47 million). The decline in the turnover of the stock exchange during the first 10 months of 2012 was also followed by a decrease in executed transactions. During the first half of 2012, 5,853 transactions were completed. This was 51% less than during the same period in 2011 (11,456 transactions). During the first 10 months of 2012, three types of securities were traded: company shares, privatization-investment fund shares and bonds which included Government bonds and Ministry of Finance bonds. The greatest turnover was recorded in the area of company shares (62.8%), followed by bonds (26.4%). The total turnover of investment funds amounted to 10.8%. Company shares fell in comparison with figures recorded in the same period last year, while bonds and investment funds recorded increases (354% and 107% respectively).

Stock Exchange Indices

The Montenegrin stock exchange uses two indices, MONEX20 and MONEXPIF. In March 2012, the Montenegrin Board of Directors adopted a new methodology for calculating the indices MONEX20 and MONEXPIF. By adopting a new method for calculating the index, they aim achieve a more accurate representation of the capital market situation. The new method that was adopted to calculate the index is available on the official website of the Montenegrin stock exchange.

MONEX20

The value of the MONEX20 index, which includes the 20 most liquid companies traded on the Montenegrin stock exchange, has decreased steadily since the beginning of 2012 with just a few oscillations. The highest value reached by MONEX20 during the first half of 2012 was recorded on March 23 with 9,807 points. The lowest value was recorded on July 27 with 8,138 points.

MONEXPIF

The value of this index has declined steadily with just a few oscillations since the beginning of 2012. It reached its highest level on February 2 with a total of 4,273 points. The lowest point was recorded on June 21 with 3,022 points. The index value was influenced in such a way that a similar trend was evident in all of the privatization investment funds.

Privatization – Investment Funds on the Stock Exchanges

The total volume of trade involving PIF shares during the first 10 months of 2012 amounted to €2.933 million. This showed a growth of 7% when compared with the same period in 2011. In total, during the first half of 2012, 1,218 transactions were made. These transactions represent a total of 61,298 million shares. The most actively traded shares during this period were Atlas Mont (34,607 million shares). The privatization-investment fund “MIG” JSC Podgorica has changed its name to the “Society for Task Management and Real Estate Management MIG” JSC Podgorica. It started to trade its shares on the free stock market, by auction, on 27 March.

10. Competition from State-Owned Enterprises (SOEs)

Private enterprises in Montenegro are able to compete with public enterprises under the same terms and conditions with respect to access to markets, credit and other business operations.

From the beginning of the privatization process in 1999 through the end of September 2012, nearly 90 percent of the capital in Montenegrin companies had been privatized. The most important state-owned companies include the Port of Bar, Montenegro Railways, Montenegro Airlines, Airports of Montenegro, and the Plantaze Vineyard. All of these companies are registered as joint-stock companies, with the Government of Montenegro appointing one or more representatives to each Board based on the ownership structure. All must provide an annual report to the government and are subject to independent audits.

The Government of Montenegro is the main institution responsible for the privatization process. The Privatization and Capital Projects Council has been formed to manage, control and supply implementation of the privatization process as well as to propose and coordinate all activities necessary for capital projects application in Montenegro. The Prime Minister of Montenegro is the president of the Privatisation and Capital Projects Council.

The responsibility of this council is defined by the Law on Economic Privatization. The Privatization Council announces each year the plan for privatization which defines which companies will be privatized and the methods of their privatization.

The privatization process in Montenegro is in its final phase. The majority of companies that have not yet been privatized are of strategic importance to the Montenegrin economy in such fields as energy, transport, and tourism. Further privatization of state-owned companies should contribute to better economic performance, increase the competitiveness of the country and enable the Government of Montenegro to generate higher revenues which will enhance capital investments and reduce debts.

More information about the Council and the actual privatization plan is available on the Council's website: www.savjetzaprivatizaciju.me/en

11. Corporate Social Responsibility

An awareness of corporate social responsibility exists among Montenegrin enterprises and entrepreneurs. CSR programs are strongest in large, privately-owned Montenegrin and foreign firms, but small firms do engage in some CSR activities. A survey showed that large private companies and associations are, indeed, more engaged in CSR activities, whereas small companies cited the lack of knowledge about CSR and the lack of support and interest from clients as the main reasons for not participating.

12. Political Violence

Montenegro has been led by democratically-elected governments since 1991. The current government strongly supports Montenegro's integration into the European Union and NATO, as well as implementing the reforms necessary to achieve these goals.

There is no sustained anti-American sentiment among the general public despite some residual resentment stemming from the 1999 NATO bombing. Montenegro and the United States share most policy goals and cooperate productively in many areas. There is broad support for a strengthening of ties with the United States, especially in the economic and commercial sphere.

13. Corruption

As is the case with many countries in transition and in the region, corruption is a significant issue in Montenegro. Corruption routinely places high on the list of citizens' concerns in opinion polls.

Montenegro took 75th position in the Transparency International (TI) 2012 Corruption Perception Index list, which is nine positions lower than last year. Regionally, Croatia (62nd), Macedonia (69th), and Bosnia and Herzegovina (72nd) all rank higher. The only countries that ranked lower were Serbia (80th), Kosovo (105th), and Albania (113th).

In 2005, the government adopted an official Program for the Fight against Corruption and Organized Crime, and then created an Action Plan to implement the Program the following year. In 2007, the Government established a National Commission to monitor the implementation of the Action Plan. The Deputy Prime Minister and Minister of Justice Dusko Markovic currently heads the Commission.

A legal framework to help combat corruption and organized crime has been in force since the August 2006 adoption of the Law on Witness Protection. Montenegro is also preparing a criminal intelligence system, and has been a full member of the International Criminal Police Organization-Interpol since September 2006.

In the past two years, progress on combating corruption has been achieved through the passage of important legislation on public procurement, the treasury and budget system, and the courts. Nevertheless, there have been few high-profile corruption prosecutions. Implementation of these laws is considered a top priority for the government. On June 29th, 2012 Montenegro officially started negotiations with the EU and the most challenging chapters are related to the area of rule of law.

14. Bilateral Investment Agreements

In December 2006, Montenegro signed the Central European Free Trade Agreement (CEFTA) intended to eliminate all custom restrictions for industrial and agricultural products in member states by 2010. The Parliament ratified CEFTA on March 21, 2007, and it took effect in Montenegro (and simultaneously in Albania, Macedonia, Moldova, and Kosovo) on July 26, 2007. Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia were already parties to the Agreement. Montenegro held the rotating CEFTA Presidency during 2009.

On November 14, 2011 Montenegro signed a Free Trade Agreement with the European Free Trade Association (EFTA).

The United States does not have a Bilateral Investment Treaty (BIT) with Montenegro. It is possible that, given the presence of U.S. investors, Montenegro could be a BIT candidate in the future.

The U.S. restored Normal Trade Relations (Most-Favored Nation status) to Montenegro in December 2003. This status provides improved access to the U.S. market for goods exported from Montenegro. The U.S. Government has approved Montenegro's request to be designated a beneficiary developing country under the U.S. Generalized System of Preferences (GSP) program, which provides duty-free access to the U.S. market in various eligible categories.

Other free trade agreements:

- Free Trade Agreement with Russia. A free trade agreement with Russia, concluded in August 2000, provided for the gradual elimination of barriers to Montenegrin exports to Russia by 2005. The agreement stipulates that the importing country regulate the rules of origin, in accordance with WTO principles. The list of products not covered by the duty free agreement is updated annually, and it currently includes poultry, sugar, chocolate, alcoholic beverages, soap, cotton, carpets, wooden furniture, household appliances, and motor vehicles.

- Preferential Trade Agreement with the European Union. The EU has taken steps to stimulate the export of goods among countries in the region through the establishment of autonomous trade preferences (ATP), which provide duty-free entry for over 95 percent of goods. Exemptions include wine, meat, and steel. Products originating from Montenegro are generally admitted into the European Union without quantitative restrictions and are exempted from custom duties and charges. The products exempted from the free import regime are agricultural products, "baby beef" products, and textile products.

- Free Trade Agreement with Turkey. Montenegro and Turkey signed an asymemetric Free Trade Agreement in November 2008. While the list of industrial products covered is identical to that signed with the EU, the list of agricultural products is rather limited. The Montenegrin Parliament ratified the Agreement in July 2009, and ratification by the Parliament of Turkey is expected.

- EFTA countries (Switzerland, Norway, Iceland, and Liechtenstein). A Free Trade Agreement with the EFTA countries was signed on November 14, 2011.

15. OPIC and Other Investment Insurance Programs

Montenegro, through the State Union of Serbia and Montenegro, became eligible for OPIC programs in July 2001. OPIC activities in Montenegro include: insurance for investors against political risk, expropriation of assets, damages due to political violence and currency convertibility; and insurance coverage for certain contracting, exporting, licensing and leasing transactions. OPIC also established the Southeast Europe Equity Investment Fund that is managed by Soros Management; the fund is capitalized at $150 million. For more information, please see: http://www.opic.gov

Montenegro became the member of the World Bank Group in January 2007 by signing the Articles of Agreement of the International Bank for Reconstruction and Development (IBRD). Montenegro is a member of the IBRD and has also joined the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

16. Labor

Montenegro's total labor force is comprised of approximately 245,800 people. According to data provided by the Employment Agency of Montenegro, the unemployment level at the end of third quarter was 13.18% and per the state statistics agency, Monstat, 19.1%. The average monthly salary, without taxes and contributions, was 483 euro ($630) in November 2012. Foreign investors cite the lack of a highly skilled labor pool as one of the challenges faced in Montenegro.

Over the past few years, employment in private companies has increased, and total employment in the social sector (including state-owned companies) has decreased. Major sectors generating employment in Montenegro are tourism, ports and shipping, and manufacturing.

Bringing Montenegro's labor market legislative framework into accordance with EU standards is one of the primary economic tasks of the GoM. The Labor Law defines a single collective agreement for both public and private sectors, maintains the existing level of severance payments, and retains the current 365 days of maternity leave. Changes to the Labor Law have made it easier to dismiss employees for poor performance.

The Law on Peaceful Resolution of Labor Disputes was adopted in December 2007. It introduces out-of-court settlement of labor disputes for the first time in Montenegro. However, the agency required for implementation of the law still needs to be established.

The new Law on the Employment of Nonresidents took effect on January 1, 2009 and mandates the government to set a quota for nonresident workers in the country. The quota for 2013 is 16,500 nonresident workers. Procedures for hiring foreign workers have been simplified, and taxes for nonresident workers have been significantly decreased to help domestic companies that are having problems engaging domestic staff, particularly for temporary and seasonal work. The contribution for employee for health insurance has been reduced from 80 euro to 10 euro, as it was a significant burden to the creation of new jobs. Substantial amendments to existing legislation and timely adoption of the necessary by-laws are needed to align legislation on workplace health and safety more closely with the EU. The administrative capacity of the Ministry of Labor and its inspection department is not yet strong enough, and the establishment of the workplace safety agency needs to be prioritized.

Changes were also made to the Law on Pensions and Invalid Care, primarily in the area of increasing the age of retirement to 67 years (both for men and women). This will happen gradually over a period of time until 2042. These changes are being made to eliminate problems that have occurred in the pension fund. The ratio between pensioners and active employees is very low and the whole system is endangered.

17. Foreign-Trade Zones/Free Ports

In June 2004, Montenegro passed a Free Trade Zone Law, which offers businesses benefits and exemptions from custom duties, taxes and other duties. The Port of Bar is currently the only free trade zone in Montenegro. All Free Zone users have at their disposal the use of infrastructure, port handling services, and all telecommunication services.

All regulations relating to free trade zones are in compliance with EU legal standards. Complete equality has been guaranteed to foreign investors in reference to ownership rights, organizing economic activities in the zone, complete free transfer of profit and deposit, and the security of investments.

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18. Foreign Direct Investment Statistics

Montenegro has attracted considerable interest from foreign investors. Although foreign direct investment has decreased in the last two years, largely as a result of the global economic crisis, Montenegro remains a top regional investment destination as measured by investment per capita. According to preliminary data released by the Montenegrin Investment Promotion Agency (MIPA) FDI in the first nine months of 2012 reached 349 million euro and and is projected to reach 450 million euros by year's end. The largest new investment in 2012 was the purchase of the Niksic Steel Mill by the Turkish company Toshcelik for $22 million.

Large investments made in the last five years:

Austria

Investing Company: Springer & Sons
Country: Austria
Investment: Acquisition of Hotel Panorama for USD 9.3 million

Investing Company: Hypo Group
Country: Austria
Investment: Greenfield investment in Hypo Alpe Adria Montenegro of USD 15 million

Belgium

Investing Company: Royal
Country: Belgium
Investment: Greenfield investment in Royal Montenegro of USD 147 million

Canada
Investing Company: Molson
Country: Canada
Investment: Acquisition of Brewery for USD 32 million

Egypt

Investing Company: Orascom Development
Country: Egypt
Investment: Greenfield investment on Lustica peninsula of USD 14.7 million

Investing Company: Egyptian investment fund
Country: Egypt
Investment: Greenfield investment of USD 73.5 million

France

Investing Company: Societe Generale
Country: France
Investment: Acquisition of 64.45 percent of Podgoricka Bank for USD 16.8 million

Investing Company: Alstom
Country: France
Investment: Expansion of Niksicka Tehno Baza of USD 7.35 million

Germany

Investing Company: Strabag AG
Country: Germany
Investment: Acquisition of Public Enterprise Crna Gora Put for USD 10.5 million

Great Britain

Investing Company: Beppler & Jacobson
Country: England
Investment: Acquisition of Hotel Bianca and Bjelasica Ski center for USD 11.3 million

Investing Company: Beppler & Jacobson
Country: England
Investment: Acquisition of Hotel Avala for USD 15.2 million

Greece

Investing Company: Hellenic Petroleum
Country: Greece
Investment: Acquisition of the 54.4 percent of Jugopetrol Kotor petroleum refinery for USD 120 million

Hungary

Investing Company: Matav (with Deutsche Telecom)
Country: Hungary
Investment: Acquisition of 51 percent of Telecom Montenegro for USD 142 million

Investing Company: OTP Bank
Country: Hungary
Investment: Acquisition of CKB bank for USD 134 million

Italy

Investing Company: Bolici Invest
Country: Italy
Investment: Greenfield investment in Hotel Bolici of USD 58.8 million

Investing Company: A2A
Country: Italy
Investment: Acquisition of the Electric Power Company of Montenegro (EPCG) of USD 282.3 million

Investing company: Terna
Country: Italy
Investment: Greenfield investment in submarine cable of USD 975 million

Japan

Investing Company: Daido
Country: Japan
Investment: Acquisition of ball bearing factory for USD 11.2 million

Norway

Investing Company: Telenor
Country: Norway
Investment: Acquisition of Promonte mobile operator for USD 145 million

Russia

Investing Company: Rusal
Country: Russia
Investment: Acquisition of "KAP" aluminum plant for USD 58.2 million

Investing Company: Salomon Ent
Country: Russia
Investment: Acquisition of Bauxite Mine (Rudnici boksita AD Podgorica) for USD 12.5 million

Investing Company: Capital Estate
Country: Russia
Investment: Acquisition of Hotel "Grand Lido" for USD 10.8 million

Investing Company: Lukoil
Country: Russia
Investment: Portfolio investment in Roksped of USD 39 million

Slovenia

Investing Company: HIT Nova Gorica
Country: Slovenia
Investment: Acquisition of the Hotel Maestral for USD 48 million

Investing Company: LB Leasing Ljubljana
Country: Slovenia
Investment: Greenfield investment in LB Leasing Podgorica of USD 10.1 million

Investing Company: Petrol Bonus
Country: Slovenia
Investment: Acquisition of Montenegrobonus for USD 154.5 million (for six years)

Investing Company: Intereuropa
Country: Slovenia
Investment: Portfolio investment in Zetatrans for USD 12.3 million

Investing Company: Mercator Group
Country: Slovenia
Investment: Portfolio investment in Mercator Mex of USD 8.8 million

Spain

Investing Company: Fersa
Country: Spain
Investment: Greenfield investment in the first windmill of USD 82 million

Singapore

Investing Company: Aman Resorts
Country: Singapore
Investment: Lease of HTP Budvanska Rivijera ("Sveti Stefan", "Milocer", "Kraljicina plaza") for USD 1.95 million per year for 30 years, following a first year payment of USD 2.1 million.

Switzerland

Investing Company: BT International
Country: Switzerland
Investment: Acquisition of "4. Novembar" Mojkovac for USD 6.3 million

Slovakia

Investing Company: Gradex HPB
Country: Slovakia
Investment: Acquisition of Rudnik coal mine for USD 12.7 million

Serbia

Investing Company: Telecom Serbia and Ogalar B.V.
Country: Serbia and Holland
Investment: Greenfield investment of USD 16 million

Investing Company: Delta
Country: Serbia
Investment: Greenfield investment in Delta City shopping mall of USD 86.9 million

Turkey

Investing Company: Gintas Group
Country: Turkey
Investment: Greenfield investment in Mall of Montenegro of USD 58.8 million

Investing company: Toshcelik
Country: Turkey
Investment: Acquisition of Steel Mill for USD 22 million

USA

Investing Company: Morgan Invest
Country: USA
Investment: Portfolio Investment of Titex for USD 2.45 million

Investing Company: Becovic Management Group
Country: USA
Investment: Acquisition of Hotel "Mediteran" for USD 1 million